

TEHAMA COUNTY ASSESSMENT PRACTICES SURVEY

MAY 2001

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May 14, 2001

TO COUNTY ASSESSORS:

TEHAMA COUNTY
ASSESSMENT PRACTICES SURVEY

2001/030

A copy of the Tehama County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Robert C. Brownfield, Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report and the county assessor's response constitute the final survey report which, pursuant to Government Code section 15646, is distributed to the Governor, Attorney General, and State Legislature, and to the Tehama County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

The BOE's County Property Tax Division performed the fieldwork for this survey of the Tehama County Assessor's Office from March to April 2000. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The survey process inherently requires the interruption of normal office work routines. We thank Mr. Brownfield and his staff for their cooperation and patience during this assessment practices survey.

These survey reports give the government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share your questions, comments, and/or suggestions for improvement with us.

Sincerely,

Richard C. Johnson
Deputy Director
Property Taxes Department

RCJ:jm
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the enormous impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews (surveys) every county assessor's office and publishes a report of its findings. This report reflects the BOE's findings in its periodic survey of the Tehama County Assessor's Office.

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes increased the number of recommendations in the survey reports.

The assessor is required by law to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly, and to the Tehama County grand jury and assessment appeals board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Robert C. Brownfield, Tehama County Assessor, elected to file his initial response prior to the publication of our survey; that response is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties assigned to the assessor. In addition, Revenue and Taxation Code¹ section 75.60 requires the BOE to certify that the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Tehama County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Tehama County with information relevant to the property tax assessment program. Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether significant assessment problems exist, as defined in Property Tax Rule 371.

This survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on the results of our research into statutory violations, under- or overassessments, or unacceptable appraisal practices that may occur in specific areas.

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment.

¹ All statutory references are to the California Revenue and Taxation Code, unless otherwise indicated.

EXECUTIVE SUMMARY

This report presents several recommendations for improvement, but it also attempts to note those program elements that are particularly effective and efficient. It also highlights areas of improvement since our last assessment practices survey and acknowledges the implementation of previous recommendations.

- In our 1994 Assessment Practices Survey of Tehama County, we made 16 recommendations to address problems we found in the assessor's policies and procedures. The assessor fully implemented five of the recommendations, one was no longer applicable, but he did not implement the remaining ten. We repeat those ten recommendations in this report.
- We found that the assessor and his appraisers hold BOE certificates and have met training requirements. We also found no problems with the assessor's administration of the assessment appeals program, administration of low value properties, processing of supplemental assessments, administration of the welfare exemption for exempt housing, assessment of tenant improvements, assessment of water company properties, and assessment of business properties related to leased equipment, racehorses, service stations, and energy generating facilities.
- In our prior survey, we recommended that the assessor develop written guidelines for change in ownership processing, appraisal of possessory interests, valuation of manufactured homes, and disaster relief discovery. We found that the assessor has not complied with these recommendations. In addition, we recommend that the assessor develop and maintain a policy and procedures manual.
- There is no review process for appraisals and audits. This situation potentially creates problems with appraisal consistency and errors.
- The assessor is committed to the advancement of computer technology in everyday operations. The assessor's office uses the Crest Property System running on a Hewlett Packard 9000. This system is currently under expansion. There is a need for storing the data and the back-up programs in an off-site location. Also, a formal disaster recovery plan should be developed for the computer system.
- Tehama County is participating in the State-County Property Tax Administration Program. The assessor has reported to the Department of Finance that the contractual obligations were met, and the auditor-controller verified the reports.
- The assessor does not apply section 506 interest to many escaped assessments.
- The assessor should request the board of supervisors to update the county's disaster relief ordinance to reflect current statutes. The county's disaster relief ordinance still refers to section 155. The current code section is 170. Also, we found that the assessor has granted disaster relief without an application being filed.
- The assessor is correctly applying the penalty for not timely filing a Change in Ownership Statement. However, the assessor has failed to revalue certain parcels owned by legal entities that had changed control. In addition, we found instances where property received the section 63.1 exclusion, when the claim form was incomplete.

- The assessor continues to incorrectly assess wells and well casings as structure improvements. We recommend the assessor log all building permits on the appraisal records. The assessor should conduct a study to support the assessment discount given to newly constructed swimming pools. We found that the majority of residential properties we reviewed contained no references to the source of unit costs.
- The assessor has not reviewed private uses at the fairgrounds and boat docks to discover possible taxable possessory interests. In addition, the present worth of unpaid rents is still not being added to the nominal sales price of cabins located on National Forest property.
- When valuing Section 11 properties, the assessor failed to consider a property's factored base year value. Also, the assessor has failed to implement our prior recommendation regarding discovery of Section 11 properties.
- We make five recommendations concerning California Land Conservation Act (CLCA) assessments, including to uniformly assess CLCA properties; use current rents; enroll the lowest of factored base year values, current market values, or restricted values; use an income stream with an appropriate shape for living improvements; and include compatible use income in the income approach.
- We found the assessor is following the provisions of Rule 468 in assessing petroleum properties. However, he is not following the provisions of Rule 469 for mineral properties and he does not require operators of mineral extraction properties to file the annual Aggregate Production Report.
- We discovered that the assessor fails to value improved properties in Timberland Production Zone (TPZ) land at the lower of their factored base year value or the current market value. The assessor should also send an annual questionnaire to each TPZ property owner requesting information on existing compatible uses and include the income from those uses in the income stream of the TPZ property.
- In processing business property statements, the assessor should use only certificated staff to value all property as required by section 670. The assessor should use the long version of the business property statement for all accounts with a full cash value of \$200,000 or more as required by Rule 171.
- The assessor uses the recommended price trending factors from the Assessors' Handbook Section 581 to appraise machinery and equipment, but not in the manner intended. He continues to use only one schedule out of the 12 available.
- The assessor assessed all personal property, including household furnishings, personal effects, and horses, reported by the large homeowners' associations. We recommend that the assessor exempt furniture, appliances, exercise equipment, recreational equipment, horses, household furnishings, personal effects, and pets owned and used exclusively by homeowners' associations, as provided by Property Tax Rule 134.
- The audit program should be modified to include audit narratives and audit summaries, supported by workpapers.
- The assessor exempted three historical aircraft for the 1999 assessment roll even though the aircraft owners filed affidavits after the February 15 deadline.
- If the assessor finds that the sales price for a vessel exceeds the bluebook range, he reduces the sales price by 30 percent and enrolls that value. We disagree with this across-the-board reduction.

- The assessor currently enrolls all manufactured homes as real property improvements. We recommend that the assessor properly classify manufactured homes as personal property. Once the base year value of the manufactured home is enrolled, the assessed value remains constant from year to year. That procedure does not comply with the Revenue and Taxation Code.
- The assessor continues to incorrectly include personal property in the improvement value of apartment appraisals.
- As defined in Property Tax Rule 371, we found no significant assessment problems. Accordingly, pursuant to section 75.60, Tehama County continues to be eligible for recovery of costs associated with administering supplemental assessments.

Here is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

RECOMMENDATION 1:	Develop and maintain a formal policy and procedures manual.	11
RECOMMENDATION 2:	Review appraisals and audits.	11
RECOMMENDATION 3:	Store backup programs and data at a secure, off-site location.	12
RECOMMENDATION 4:	Develop a formal disaster recovery plan for the computer system.	12
RECOMMENDATION 5:	Include section 506 mandatory interest on all applicable escape assessments.	13
RECOMMENDATION 6:	Request the board of supervisors to update the county's disaster relief ordinance.	15
RECOMMENDATION 7:	Grant disaster relief only upon receipt of a timely application.	15
RECOMMENDATION 8:	Reappraise all real property owned by legal entities upon a change in control.	18
RECOMMENDATION 9:	Accept only completed section 63.1 claims.	18
RECOMMENDATION 10:	Assess wells and well casings as land.	19
RECOMMENDATION 11:	Log all building permits on appraisal records.	19
RECOMMENDATION 12:	Substantiate new construction discounts on residential swimming pools.	19
RECOMMENDATION 13:	Assess all taxable possessory interests.	20
RECOMMENDATION 14:	Add the present worth of unpaid rents to the nominal sales price of National Forest Service cabins as required by Rule 25.	20

RECOMMENDATION 15:	Assess taxable government-owned land at the lowest of its Section 11 value, its factored base year value, or its current market value.	21
RECOMMENDATION 16:	Improve the taxable government-owned property discovery program.	21
RECOMMENDATION 17:	Uniformly assess comparable restricted properties.	22
RECOMMENDATION 18:	Use current rents when valuing CLCA restricted property.	23
RECOMMENDATION 19:	Enroll the lowest of the CLCA restricted value, the factored base year value, or the current market value.	23
RECOMMENDATION 20:	Use the appropriate income stream to value living improvements.	23
RECOMMENDATION 21:	Include all compatible use income in the appraisal of CLCA properties.	23
RECOMMENDATION 22:	Follow Property Tax Rule 469 when appraising mineral properties.	24
RECOMMENDATION 23:	Require mineral property operators to file the <i>Aggregate Production Report</i>	25
RECOMMENDATION 24:	Enroll improved property in Timberland Production Zones (TPZ) at the lower of its factored base year value or current market value.	25
RECOMMENDATION 25:	Include all compatible use income in the assessment of TPZ properties.	26
RECOMMENDATION 26:	Send annual questionnaires to TPZ landowners to discover compatible uses so the income from such uses can be included in calculating assessed value.	26
RECOMMENDATION 27:	Use certificated staff in the valuation of business personal property as required by section 670.	27
RECOMMENDATION 28:	Send the long form of the annual business property statement (BOE 571-L) to all owners with personal property of \$200,000 or more in full value as required by Rule 171.	28
RECOMMENDATION 29:	Use equipment index and percent good factors that are applicable to the category of equipment being appraised.	28

RECOMMENDATION 30:	Exempt personal property that is owned by homeowners' associations in accordance with section 224.	29
RECOMMENDATION 31:	Adopt minimum audit standards.	29
RECOMMENDATION 32:	Consistently enforce the filing deadline for the aircraft of historical significance exemption.	30
RECOMMENDATION 33:	Assess vessels at market value.	31
RECOMMENDATION 34:	Enroll manufactured homes as personal property.	31
RECOMMENDATION 35:	Annually enroll the lower of the factored base year value or the current market value for manufactured homes.	32
RECOMMENDATION 36:	Properly and consistently assess personal property in apartment appraisals.	32

OVERVIEW OF TEHAMA COUNTY

Tehama County is located in the Northern Sacramento Valley, and the county is split geographically by Interstate 5 and the Sacramento River. The major employers are molding and frame production, retail sales, and government.

Tehama County's population is approximately 55,700. Approximately 13,100 people reside in Red Bluff, which is the county's largest city and the county seat.

The following chart displays pertinent information from the 1999-2000 assessment roll.²

<u>Property Type</u>	<u>Number of Assessments in County</u>	<u>Enrolled Values</u>
Residential	26,313	
Misc. (including Oil, Gas, & Mineral)	3,371	
Rural	10,322	
Commercial/Industrial	<u>1,383</u>	
Total Secured Roll	41,389	\$2,473,400,000
Total Unsecured Roll (personal property except manufactured homes)	<u>4,275</u>	<u>87,600,000</u>
Total Roll	<u>45,664</u>	<u>\$2,561,000,000</u>

² Information obtained from the questionnaire returned by the assessor to the BOE for *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for the 1999/2000 assessment roll and the BOE-801-R S1B report on the assessment roll sent to the Research Division of the BOE.

RESULTS OF THE 1994 SURVEY

Low Value Exemption

We recommended that the assessor apply the low-value property exemption only to those properties that qualify, and to the appropriate appraisal unit. We found that the low-value property resolution is in compliance with statutes, and the assessor is implementing its provisions appropriately. The assessor has complied with this recommendation.

Disaster Relief

We recommended the assessor request that the board of supervisors update the county's disaster relief ordinance, process the eligible property in accordance with section 170, and improve the disaster relief discovery procedures. These recommendations have not been implemented, and we repeat the first two.

Change in Ownership

We recommended that the assessor develop written guidelines for processing changes in ownership. Although the assessor has started to develop such guidelines, the project is not complete.

We recommended that the assessor apply the section 482 penalty for failure to file a change in ownership statement in a timely manner. We found that the assessor correctly applies the penalty.

We also recommended that the assessor include the selling prices of properties in the public list of transfers. Section 408.1 requires all assessors in counties with populations of 50,000 or more people, as determined by the 1970 federal decennial census, to maintain a two-year listing of transfers of any interest in property. We have now ascertained that the county was under the 50,000 population requirement in 1970. The recommendation is not applicable.

New Construction

We recommended that the assessor value wells and well casings as land improvements. It is still the assessor's policy to enroll the total value of the well, casing, pump, pressure system, and power pole on residential property as structural improvements. We repeat this recommendation.

Declines in Value

We recommended that the assessor improve the tracking of properties that are valued at less than the factored base year value, and appraise all property in accordance with section 51. By consistently tagging and tracking properties with declines in value, the assessor has complied with this recommendation.

Taxable Possessory Interests

We made several recommendations pertaining to the assessment of possessory interests. The assessor still fails to add the present worth of the remaining contract rents to the nominal selling price when determining the full cash value of a possessory interest. There are no written guidelines to assist in the discovery and assessment of possessory interests.

Also, we recommended that the assessor enroll taxable possessory interests at the Sun Country Fairgrounds. The assessor has not complied with these recommendations, and we repeat them in this report.

Taxable Government-Owned Property

We found that the assessor had not implemented a regular program to discover Section 11 properties in Tehama County. We recommended that the assessor's office assess all taxable government-owned lands in accordance with article XIII, section 11 of the California Constitution. The assessor has not implemented such a program, and we repeat the recommendations.

California Land Conservation Act Properties

For California Land Conservation Act (CLCA) properties, we recommended the assessor use a more appropriate income stream for living improvements. The assessor has not implemented this recommendation, and we repeat it in this report.

Audit Program

We previously recommended the assessor enroll all escape assessments discovered during audits, regardless of the amount. Additionally, we recommended that a waiver of the statute of limitations be obtained whenever a mandatory audit will not be completed timely. The assessor has implemented both of these recommendations.

Valuation of Business Personal Property

We recommended that the assessor use the BOE's equipment index factors properly. The assessor continues to use only the service equipment index factors from Assessors' Handbook Section 581 (AH 581), *Equipment Index Factors*, so we repeat the recommendation.

Vessels

We noted that the assessor improperly arbitrarily depreciates the initial vessel sales price and further depreciates vessel values annually by a uniform factor. We found he continues this practice, and we repeat the recommendation.

Manufactured Homes

We recommended that the assessor establish a written policy for the valuation of manufactured homes. Some manufactured home assessed values were adjusted by the section 51 inflation factor. Some were not. In addition, there was no consistent review of manufactured home valuations following decline-in-value assessments. The assessor did not implement our recommendations.

ADMINISTRATION

This portion of the survey report focuses on the administrative policies, procedures, and practices of the assessor's office that affect both the real property and business property assessment programs. We examined the State and County Property Tax Administration Program, training, exemptions, supplemental assessments, quality control, computer system, low value exemption, and disaster relief. We also reviewed how the assessor handles corrections and changes to the completed assessment roll, and how the assessor prepares and presents assessment appeals.

Training

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. Section 671 further provides that all appraisers who hold such a certificate must complete at least 24 hours of annual training. This requirement is reduced to 12 hours if an appraiser holds an advanced certificate.

An analysis of the staff training indicated that all appraisers hold BOE certificates. An auditor-appraiser certificated by the BOE performs all appraisals of mandatory accounts. The assessor holds a BOE certificate and has met training requirements, as has his staff.

Standards and Quality Control

RECOMMENDATION 1: Develop and maintain a formal policy and procedures manual.

We previously recommended that written guidelines be developed for change in ownership processing, appraisal of possessory interests, valuation of manufactured homes, and processing disaster relief claims. The change in ownership guidelines are in the process of being developed, but otherwise the assessor has not implemented this recommendation.

Some of the major areas that should be included in the manual are computer use and security, roll correction procedures, assessment appeal procedures, exemption procedures, business property statement processing procedures, audit procedures, new construction valuation, and application of the low-value ordinance. Also, the appropriate appraisal process for specific types of properties, including tenant improvements, timberland, possessory interests, California Land Conservation Act properties, Section 11 properties, mineral properties, water companies, energy generating facilities, and service stations, should be included.

Not only are procedures manuals invaluable as training tools for new employees but they help ensure that the work is consistent with approved policies and practices. We recommend the assessor develop and maintain a policy and procedures manual.

RECOMMENDATION 2: Review appraisals and audits.

There is no review of real property appraisals, audits, or business property statement processing. Review is important for quality control purposes and is an effective management tool to ensure the accuracy and thoroughness of valuation programs.

We recommend the assessor implement a review process for appraisals and audits.

Computer System

In order to use resources efficiently and effectively, an organization must dedicate a significant amount of its resources to updating and maintaining its computer systems. The assessor has an enthusiastic commitment to the advancement of computer technology in everyday operations. Tehama County is one of seven counties using the Crest Property Tax System (CPTS), which serves the county assessor, county auditor, and tax collector offices.

All employees have a personal computer at their desks that is networked, having access to the CPTS and the personal computer server. Through the use of a spreadsheet and auto filter function, parameters can be set for comparable sales retrieval. All systems are password protected and are set up for restricting access.

RECOMMENDATION 3: Store backup programs and data at a secure, off-site location.

Computerized data from the assessor's office is backed up weekly. A full system backup is made twice a year. The backup data is stored on-site in the computer room next to the computer equipment. Also, in the same building, an additional copy of the preliminary roll and backup data are kept in a fireproof safe at the county tax collector's office. The problem with storing the backup data with the system or in the same facility is that if a disaster destroys the room or the facility, the backup data is also lost. We recommend that the assessor store the backup programs and data at a secure, off-site location.

RECOMMENDATION 4: Develop a formal disaster recovery plan for the computer system.

To ensure that the assessor's office has the capability to recover quickly from a catastrophic event involving the computer system, a formal disaster recovery plan should be adopted. The plan should identify a secure, off-site location, and define the specific steps and establish a timetable for complete recovery of computer operations, programs, and data.

State-County Property Tax Administration Program

Section 95.31 established the State-County Property Tax Administration Program (PTAP). This program provides state-funded loans to eligible counties for the improvement of property tax administration.

If an eligible county elects to participate, the county and the State Department of Finance enter into a written contract, as described in section 95.31. PTAP loans are considered repaid if the county satisfies agreed-upon performance criteria set forth in the contract. As a provision of the contract, a county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's office's existing funding.

Presently, the BOE's only connection with the program is that a county's performance in the BOE's survey program is one of the contractual performance criteria specified in section 95.31. The BOE has no direct role in determining whether a county has met its contractual performance measures for loan repayment, and the BOE's assessment practices survey does not review contract performance. For most counties, the contract provides that verification of performance is certified to the State Department of Finance by the county auditor-controller.

The Tehama County Board of Supervisors elected to participate in PTAP during years 1996-97, 1997-98, and 1998-99. The county was originally eligible for a loan of \$74,000 for the year beginning April 1, 1996 and was eligible for \$97,222 for each of the fiscal years 1997-98 and 1998-99. The county is required to maintain required base funding and staffing levels for the assessor's office of \$650,239 and 15 positions, respectively. The Tehama County Auditor-Controller has annually certified to the State Department of Finance that the county has met the contractual requirements for loan repayment.

Tehama County has used PTAP funds to reduce backlogs of nonmandatory audits, escape assessments, and decline-in-value assessments. Funds have been used to purchase new information technology, including software and hardware, as well as for staffing, communication, and transportation. All expenditures were designed to increase the long-term productivity of the assessor's office.

Assessment Roll Changes

The assessor has a duty to complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the assessor cannot change an assessment unless authorized by statute or the board of supervisors and the county counsel.

Escape assessments are assessments made after the assessor has certified that the local assessment roll was prepared pursuant to section 601. Upon discovery of property escaping assessment, the assessor must immediately add the escape assessment and any applicable penal assessment to the roll. Additionally, the assessor must also cite the Revenue and Taxation Code section that mandates the escape assessment. This action notifies the auditor-controller and tax collector whether additional interest is required on the unpaid tax.

The assessor's staff processed 652 roll changes for the 1999-2000 tax year. This number of roll changes exceeded the typical workload because the assessor used PTAP money to hire an appraiser to canvas neighborhoods in search of new and escaped construction. The roll change workload was more typical in 1998-99, when 506 changes were processed.

In February 2000, the assistant assessor streamlined the processing of roll changes by introducing an electronic tax change form he developed using Excel software. Now, staff can print a hard copy of the form for the office records and e-mail it to the auditor.

We found that notices of proposed escape assessments are sent to taxpayers at least ten days prior to posting the new values. These notices contain all of the information required by the code.

RECOMMENDATION 5: Include section 506 mandatory interest on all applicable escape assessments.

The assessor does not apply section 506 interest to escape assessments. We recommend that the staff prepare escape assessments in accordance with all applicable Revenue and Taxation Code sections, including escape, penalty, and interest assessment provisions.

Assessment Appeals

The assessment appeals function is described by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.1 are the statutory provisions governing county boards of supervisors

in the appeals function. Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization, and the BOE has adopted Property Tax Rules 301 through 326³ regarding assessment appeals.

The five members of the Tehama County Board of Supervisors serve as the local board of equalization. Appeal hearings are held three or four times per year.

For the year 1996-97, there were 464 applications for changed assessment. This unusually high number was the result of one taxpayer disputing the assessments of over 400 parcels of vacant land. The 22 appeals filed for 1997-98 and the 28 appeals filed for 1998-99 are more representative of the assessor's appeals workload. The appeals in these latter two years were resolved in the following manner:

<u>Tax Year</u>	<u>#/Appeals</u>	<u>Withdrawn</u>	<u>Stipulated</u>	<u>Denied</u>	<u>Extended</u>
1997-98	22	9	6	6	1
1998-99	28	6	19	1	2

We reviewed assessment appeals records and found that the staff typically uses sound judgment and applies appropriate appraisal procedures when arriving at a stipulated value or preparing a defense. When an assessed value is determined using the market approach, the record contains the comparable sales data used to reach the value conclusion, along with an analysis that supports the value conclusion.

We attended one appeals hearing, convened to hear a single assessment appeal. The assessor provided a strong defense of his assessment, including an analysis of the best comparable sales available. Based on our review of his appraisal files, and on his presentation at the appeals hearing, we conclude that the assessor handles assessment appeals in an exemplary manner.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to exempt from property taxation all real property with a base year value, and personal property with a full value so low, that the total taxes, special assessments, and applicable subventions would amount to less than the cost of assessing and collecting them.

In determining the level of exemption, the board of supervisors must determine at what level the costs of processing assessments and collecting taxes exceeds the funds collected, and establish the exemption level uniformly for different classes of property. The base year value or full value exempted may not exceed \$5,000, except that this limitation is increased to \$50,000 in the case of a possessory interest for a temporary and transitory use in a publicly owned fairground, fairground facility, convention facility, or cultural facility.

On February 14, 1984, the Tehama County Board of Supervisors adopted Resolution 19-1984, which exempted from taxation any real property with a base year value of \$1,000 or less, and all personal property with a full value of \$1,000 or less. The resolution provides that the exemption will be in effect for all succeeding fiscal years.

In our last survey, we recommended that the low-value exemption be applied only to qualifying properties. Parcels that together comprised an economic unit were valued separately and then

³ All Property Tax Rule references are to Title 18 of the California Code of Regulations.

measured against the low-value threshold. If they had been properly valued as a unit, they would not have qualified. As of lien date 1999, this problem had corrected itself, as all of the above mentioned parcels had resold individually and each has a base year value that now exceeds the low-value limit.

The low-value property exemption is in compliance with statutes, and the assessor is implementing its provisions appropriately.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to an assessee whose property has been damaged or destroyed by a misfortune or calamity. The ordinance may apply to any misfortune or calamity, to a major misfortune or calamity within a region that has been declared to be in a state of disaster by the Governor, or to both. The Tehama County Board of Supervisors adopted a misfortune and calamity ordinance on October 14, 1975.

Disaster Relief Ordinance

RECOMMENDATION 6: Request the board of supervisors to update the county's disaster relief ordinance.

The county's disaster relief ordinance refers to the old disaster relief provision (section 155) and requires a damage amount of \$1,000 or more rather than the \$5,000 requirement in section 170.

The assessor should request the board of supervisors to update the county's disaster relief ordinance to reflect the current statute. Also, the ordinance should reflect the lien date change to January 1.

Policies and Procedures

There are no written policies or procedures for disaster relief. The assistant assessor described how disaster claims are handled. When interviewing the staff member who actually processes the disaster relief claims, we found that practices were not consistent with the description. Written policies and procedures will clarify proper processing of disaster relief. We included disaster relief in our earlier recommendation concerning a policy and procedures manual.

RECOMMENDATION 7: Grant disaster relief only upon receipt of a timely application.

The assessor's staff processes approximately 12 disaster relief claims each year. Applications are mailed to assessees and if there is no response, a follow up letter is mailed. In reviewing appraisal records, we found that in some cases relief is granted without an application. Subdivision (d) of section 170 authorizes the assessor to reassess property without an application with the board of supervisor's approval. The board of supervisors has not granted this approval.

Once the application is submitted, the assessor correctly processes the claim. Value is removed by roll correction, and when damage is repaired or property is replaced, value is added back by supplemental assessment.

Subdivision (b) of section 170 provides that "upon receiving an application" the assessor shall follow a specified procedure to determine the amount of reduction to apply to the values on the assessment roll. When no application has been filed, and the assessor determines that a property has suffered damage within the preceding six months, subdivision (d) of that section requires the

assessor to provide an application for reassessment to the last known owner of the property. The subdivision further provides that the completed application must be filed within 30 days of notification by the assessor, but in no case more than six months after the occurrence of the damage.

We recommend that the assessor grant disaster relief only as specified by section 170.

Supplemental Assessments

Section 75.10 requires that, whenever a change in ownership occurs or qualifying new construction is completed, the assessor shall appraise the property changing ownership or the completed new construction at its full cash value on the date the change in ownership occurs or the new construction is completed.

This new value is the base year value for the property that changed ownership or that was newly constructed. Section 75.11 requires a supplemental assessment to be made for the difference between this new base year value and the taxable value on the current roll.

A new base year value for a change in ownership or the completion of new construction is reflected on a supplemental roll for the balance of the fiscal year in which the qualifying event occurs. If the event occurs between the lien date and the beginning of the fiscal year, a supplemental assessment is also levied for the coming fiscal year.

We reviewed a number of supplementally assessed parcels and found the prorations, tax bill amounts, time periods, and ownership tracking were completed appropriately. The assessor's supplemental assessment program complies with applicable provisions of the Revenue and Taxation Code.

Welfare Exemptions

Article XIII, section 4, subdivision (b) of the California Constitution authorizes the Legislature to exempt property owned and used for religious, hospital, or charitable purposes from taxation. This section of the Constitution outlines the specific property requirements and limitations that qualify a property to be tax-exempt. Section 214 and related sections establish specific guidelines that the assessor must follow in implementing this welfare exemption.

Our investigation into Tehama County's procedures for granting welfare exemptions was limited to its treatment of parsonages. To assist in determining whether or not housing is "reasonably necessary" for the primary purpose of a religious organization, we referred to the Assessors' Handbook Section 267 (AH 267) *Welfare, Church, and Religious Exemptions* (October 1998). That handbook provided a list of eleven factors that should be taken into consideration in applying the exemption.

The assessor requires that religious organizations seeking exemption for parsonages file for the welfare exemption. In addition, he requires that the organization complete a questionnaire. This questionnaire consists of the eleven questions written verbatim from the AH 267.

The assessor granted his first two exemptions for parsonages in assessment year 1999-2000. The responses to the county's questionnaire indicated that the parsonages were eligible for exemption. Since the BOE had just approved the revisions to AH 267 in October 1998, we commend the assessor for timely implementation of the guidelines for the 1999 assessment roll.

ASSESSMENT OF REAL PROPERTY

The real property staff includes an assistant assessor, three senior appraisers, one assessment roll manager, several clerical support staff, and technicians. Appraisers are assigned geographic areas as delineated by county map books. They handle most assessments within their assigned areas. One appraiser is responsible for the California Land Conservation Act (CLCA) properties and the Timberland Production Zone (TPZ) properties. One auditor-appraiser is responsible for possessory interest properties and all the commercial and industrial properties.

For the 1999-2000 roll, the assessor's staff handled a real property workload that included 2,100 changes in ownership, 2,000 new construction events, and 30 assessment appeals. For 1998/99, the local secured roll totaled \$2,579,151,000 (prior to deductions for exemptions). A current shortage in appraisal staff is becoming a large problem for the office. However, assessment deadlines are being met.

Change in Ownership

Section 50 generally requires the assessor to reappraise real property upon a change in ownership. Most often, the assessor learns of a change in ownership when a deed is recorded at the county recorder's office.

Change in Ownership Statements

Section 480 requires all transferees of real property to submit a *Change in Ownership Statement* (COS) upon a change in ownership of either real property or a manufactured home subject to local property taxation. Should a transferee fail to timely file a COS after a written request by the assessor, section 482 requires a penalty of either: one hundred dollars (\$100), or 10 percent of the tax applicable to the new base year value—whichever is greater—but not to exceed two thousand five hundred dollars (\$2,500).

About 95 percent of all transferees file *Preliminary Change in Ownership* (PCOR) forms. If a PCOR is not filed with the transfer deed, the assessor mails a COS to the transferee. If that COS is not returned within 45 days, the assessor mails a *Notice of Penalty* letter to the transferee along with another COS and an *Application for Abatement of Penalty*. In our prior survey, we noted that the assessor was not applying the penalty timely. The assessor's current practice is consistent with statutory requirements.

Legal Entity Ownership Program (LEOP)

Section 64(c) provides that a change in control of any legal entity results in a change in ownership of all real property owned by that legal entity, as of the date of change in control. Discovery of a change in control by the assessor can be difficult because ordinarily there are no recorded deeds. While such notices may appear as a matter of interest in newspapers, magazines, trade journals, and financial subscription services, they often do not appear in official county records. Using corporate and partnership tax returns filed with the Franchise Tax Board, however, the BOE's Legal Entity Ownership Program (LEOP) discovers unrecorded changes in ownership.

The LEOP staff transmits reports to each assessor containing property schedules of legal entities that have reported a change in control. Those reports include the names of acquiring entities, the date that

the stock or partnership interests transferred, the parcels involved, and whether the property was owned or leased on the transfer dates. We reviewed selected changes in control in Tehama County occurring between July 1996 and September 1998.

RECOMMENDATION 8: Reappraise all real property owned by legal entities upon a change in control.

The assessor's staff revalued all properties shown on one LEOP report we reviewed. However, we found that on another report, none of the five parcels that changed ownership had been revalued. A third LEOP report we examined indicated a parcel located in a TPZ had changed ownership in February 1997. The assessor wrote "no change in value" on a sticky note indicating the value had been reviewed. However, the change in ownership is not noted on the property's top sheet, and the computer still shows 1980 as the base year for the land. The last LEOP report we reviewed indicated that a single parcel had changed ownership as of December 1996. The computer system and the property record showed 1988 as its base year.

We conclude that the county's legal entity ownership program needs improvement. In at least one instance the staff failed to revalue parcels that had transferred, and in other instances they failed to update their records to reflect transfers. Therefore, we recommend that the assessor reappraise all real properties owned by legal entities, upon changes in control.

Parent-Child Exclusions

Section 63.1 excludes from the definition of change in ownership the purchase or transfer (on or after November 6, 1986) of the principal residence and the first one million dollars of other real property between parents and children and between grandparents and grandchildren in specific situations when a claim is timely filed. Such claims must be filed within three years of the purchase or transfer, or prior to the transfer of the real property to a third party, whichever is earlier, or within six months after the date of mailing of a notice of supplemental or escape assessment issued as a result of the purchase.

RECOMMENDATION 9: Accept only completed section 63.1 claims.

We noted that a number of the section 63.1 claims were not complete. Claimants did not answer important questions, such as whether the transfer involved the principal residence of the transferor.

Section 63.1(d)(1) provides that the exclusions from reappraisal shall not be allowed unless the eligible transferee or other legal representative files a claim with the assessor and furnishes certain information. Incomplete claims do not comply with the statute and should not have been accepted.

We recommend that the assessor comply with section 63.1 when granting parent-child exclusions.

New Construction

Section 71 requires the assessor to reappraise newly constructed real property upon the date of completion, or on each lien date while construction is in progress. Most new construction activity is discovered from building permits issued by the County of Tehama, the City of Red Bluff, and the City of Corning. The assessor also requests a monthly list of permits from the county department of environmental health for discovery of wells, casings and septic systems. Combined, these agencies issued a total of 3,800 permits for the 1998-99 fiscal year, resulting in assessments of 1,214 units. Other discovery methods include business property statements and field inspections.

RECOMMENDATION 10: Assess wells and well casings as land.

In our previous survey, we recommended that the assessor value wells and well casings as land improvements. It is still the assessor's policy to enroll the total value of the well, casing, pump, pressure system, and power pole on residential property as structural improvements. Property Tax Rule 124 provides that wells are land. Classification of wells as improvements results in overassessments of those wells since those assessments are not included in the CLCA restricted value.

We repeat our recommendation that the assessor treat wells and well casings as land.

RECOMMENDATION 11: Log all building permits on appraisal records.

All building permits received by the assessor's office are screened. If the information on the permit indicates that the new construction is insignificant or non-assessable, the permit is discarded.

All permit information is useful to an appraiser, whether or not a given permit involves assessable new construction. Appraisers need records of all permit activity in order to make informed judgments about all issues relating to market value.

Permit data can provide information on a property's history of alterations, additions, maintenance, and repairs of damage caused by calamities. The more permit information documented for appraisal reference, the more reliable the task of making an appraisal adjustment and arriving at a market value estimate. This is especially true in the event of a nonmarket property transfer. A listing of all the permits helps appraisers make and document a decision as to value. Permit data also furnishes valuable points of reference in validating the assessability of structural cost reports by taxpayers on Schedule B of the business property statement.

We recommend that all building permits be logged on appraisal records.

RECOMMENDATION 12: Substantiate new construction discounts on residential swimming pools.

It is the assessor's policy to assess newly constructed residential swimming pools at 60 to 65 percent of historical costs. The assessor has no documented study supporting these adjustments.

Property Tax Rule 4 provides that when reliable market data are available with respect to a given real property, the preferred method of valuation is by reference to sales prices. Subsection (a) of Rule 6 provides that "[t]he reproduction or replacement cost approach to value is used in conjunction with other approaches and is preferred when neither reliable sales data (including sales of fractional interests) nor reliable income data are available and when the income from the property is not so regulated as to make such cost irrelevant. It is particularly appropriate for construction work in progress and for other property that has experienced relatively little physical deterioration, is not misplaced, is neither over-or underimproved, and is not affected by other forms of depreciation or obsolescence."

The assessor's staff may believe that newly constructed pools depreciate at a different rate than the rest of the property upon which the pool was constructed. However, to make an adjustment to the cost data provided by the taxpayers, the assessor should have some kind of market data upon which to base any reduction.

We recommend the assessor substantiate his new construction discounts by conducting a study of the market values of new residential swimming pools.

Declines in Value

When preparing the assessment roll, section 51 requires the assessor to enroll the lesser of either a property's factored base year value (FBYV) or its current market value. When a property's current market value falls below its FBYV on any given lien date, the assessor must enroll that lower value as the taxable value for that property. If, on a subsequent lien date, a property's market value rises above the FBYV, then the assessor must restore the FBYV.

Whenever a property's taxable value is reduced below the factored base year value, the assessor changes the property's use code so that the computer system tracks decline in value and does not apply a California Consumer Price Index factor (CCPI) to the assessment.

In our prior survey report, several parcels with decline-in-value status were incorrectly coded. Consequently, the CCPI factor was applied, and the assessor was unable to track the properties for annual review. Now, all parcels have been properly identified. We now consider the assessor's method of tracking decline-in-value properties to be accurate and efficient.

Taxable Possessory Interests

A taxable possessory interest (PI) is a private property interest in publicly owned real property. For property tax purposes, the term possessory interest includes either the possession or the right to possession of real property when a tax-exempt government agency holds the fee title to that property.

The assessor has enrolled 302 possessory interests, which constitutes a minor portion of the total assessment roll.

Annually, the assessor sends out a questionnaire to government agencies requesting information on changes in existing leases, including changes in terms, and new or renewed leases. The rate of return of the questionnaire is approximately 75 percent, with little or no follow up. New construction is discovered primarily through the permit process and staff knowledge of recent developments. If the appraiser has knowledge that a possessory interest will terminate at the end of the contracted term, that parcel will be annually tracked for changes.

RECOMMENDATION 13: Assess all taxable possessory interests.

The State Lands Commission has boat docks available along the Sacramento River. The lessees of the larger docks that pay rent are assessed while the lessees of the smaller docks that do not pay rent are not assessed. Also, as previously recommended, the possessory interests at the Tehama County Fairgrounds should be assessed.

We again recommend the assessor assess the possessory interests at the fairgrounds, boat docks, and any other private uses of government owned real property

RECOMMENDATION 14: Add the present worth of unpaid rents to the nominal sales price of National Forest Service cabins as required by Rule 25.

In our prior report, we recommended that the assessor add the present worth of unpaid rents to the sale price of cabins located on property owned by the National Forest Service. The assessor has not

followed our recommendation. Property Tax Rule 25(a) provides that when using the comparative sales approach to value, the assessor must add the present worth of any unpaid future contract rents to the sale price of the property.

We again recommend that the assessor add the present worth of the unpaid contract rents to the nominal sales prices of cabins.

Taxable Government-Owned Property

Article XIII, section 3 of the California Constitution exempts from property taxation any property owned by local governments—except as provided in section 11. Section 11 provides that land, and the improvements thereon, located outside an agency's boundaries, are taxable if the property was subject to taxation at the time of acquisition. These lands are commonly referred to as Section 11 properties. Improvements constructed to replace improvements that were taxable when acquired are also taxable.

In 1995, the California Supreme Court held that the limitations of article XIII A of the California Constitution also apply to Section 11 properties. *City and County of San Francisco v. County of San Mateo, et al.* (1995) 10 Cal.4th 554. The court held that such property must be assessed using the lowest of (1) the current fair market value, (2) the Section 11 value, or (3) the factored base year value.⁴

RECOMMENDATION 15: Assess taxable government-owned land at the lowest of its Section 11 value, its factored base year value, or its current market value.

In Tehama County, two Section 11 properties were enrolled for 1999-2000. One record showed no evidence that the current market value was taken into consideration. The other Section 11 property was enrolled at the Section 11 value, but no consideration was given to its factored base year value or current market value for 1999-2000. Based on an interview with the appraiser who valued this property, he was not aware of the 1995 California Supreme Court decision that required that all three values are to be a part of the analysis. We recommend that the assessor bring his assessment of Section 11 properties into compliance with this decision.

RECOMMENDATION 16: Improve the taxable government-owned property discovery program.

The assessor has not implemented a thorough program to discover Section 11 properties in Tehama County. We examined a list of government-owned properties having no assessed values. By comparing the tax-rate areas of these parcels with the tax-rate areas where the various government agencies have jurisdiction, we discovered a number of properties that may be taxable but which were exempted by the assessor. Based on the names of the owners from whom these government agencies acquired title, all of the parcels appear to have been purchased from private parties, and appear to have been taxable when acquired. Therefore, we repeat the recommendation from our 1994 survey.

⁴ Letter To Assessors (LTA) 95/48.

California Land Conservation Act Property

A city or county pursuant to the California Land Conservation Act (CLCA) of 1965 is authorized to establish agricultural preserves. Property owners in an agricultural preserve may choose to enter into a contract restricting the use of their lands. Lands under contract are to be valued for property tax purposes on the basis of agricultural income-producing ability, including any compatible use income (e.g., hunting). They are to be assessed at the lowest of this restricted value, the current market value, or the factored base year value. Sections 422 through 430.5 deal explicitly with the valuation of lands subject to CLCA contracts.

Tehama County is currently in the process of drafting a section 423.4 ordinance that provides for a twenty-year contract, rather than the typical ten-year contract, in return for additional relief for the CLCA taxpayer. The current county CLCA ordinance does not call for a restricted valuation of nonliving improvements.

For the 1999 assessment year, the Tehama County Assessor reported 804,851 acres (3,814 parcels) of agricultural land restricted by CLCA contracts. This represents approximately 42 percent of the assessment roll. Of the total, 11,828 acres (111 parcels) are in non-renewal status; 9,206 acres (164 parcels) are valued at the factored base year value; and no contracts were cancelled.

There are no written policies or procedures for the processing and valuation of CLCA properties in Tehama County. The current policies and procedures used for the processing of CLCA properties should be put into written form and maintained in a procedures manual. Although the same appraiser has handled this program for several years and developed the program presently in use, there is no one crossed-trained for this program.

Homesites are correctly valued by determining the homesite value for the property's base year, and factoring it forward to the current assessment year. The assessor discovers trees, vines, and other agricultural improvements through data from questionnaires, personal property statements, permits, and appraiser canvassing. Tehama County does have an exemption from normal permit fees for agricultural improvements. The property owner must pay a \$30.00 fee to the building department for an agricultural exemption permit. A copy of this permit is forwarded to the assessor's office.

Owners of orchard parcels are mailed a questionnaire annually and owners of other types of parcels are mailed a questionnaire every other year. According to the assessor's staff, the rate of return of the questionnaires is approximately 66 percent.

RECOMMENDATION 17: Uniformly assess comparable restricted properties.

The assessor's CLCA questionnaire requesting information pursuant to section 441 contains the section 463 penalty for noncompliance. Although the assessor does not apply the section 463 penalty when the questionnaire is not returned, he does apply a higher value per acre on those parcels owned by noncompliant taxpayers when determining the restricted value. Thus, the assessor applies an indirect penalty for failing to return the questionnaire. All properties of comparable type should be assessed at the same rate, regardless of whether the property owner has returned a CLCA questionnaire.

RECOMMENDATION 18: Use current rents when valuing CLCA restricted property.

Although the assessor stores the returned questionnaires by year, staff shortages have prevented the assessor from analyzing the data for several years. The assessor continues to use the same rents for several years. This is will to lead to erroneous assessments if the rents have changed.

An analysis should be conducted of the rent information supplied by the questionnaires. This analysis should track rents being earned by different types of property, and the results should be applied to the restricted parcels.

RECOMMENDATION 19: Enroll the lowest of the CLCA restricted value, the factored base year value, or the current market value.

Each year the restricted value is compared with the factored base year value. The county's practice, due to computer limitations and staff shortages, is to not perform a comparison with the current market value. We recommend that the assessor compare the current market value with the other values and enroll the lowest of the CLCA restricted value, the factored base year value, or the current market value.

RECOMMENDATION 20: Use the appropriate income stream to value living improvements.

In valuing living improvements, the assessor uses a straight-line declining terminal income stream. We found where the living improvements came out of the exemption period, this procedure results in the underassessment of the living improvements. This is not an appropriate income stream for living improvements. As previously recommended, the appraiser should change the shape of the income stream for living improvements to inclining income – constant income – declining terminal income to reflect the actual income shape.

Assessors' Handbook Section 521 (AH 521), *Assessment of Agricultural and Open-Space Properties* (September 1997), provides that the appropriate method of capitalization will depend primarily on the shape of the anticipated income stream. The estimation of the income shape is very important because the capitalization rate is not market-derived for open-space properties. In addition, the AH 521 provides that the typical life cycle of living improvements consist of three stages, i.e., development (inclining production), maturity (level production), and declining (declining production).

Therefore, we repeat our prior recommendation that the assessor use the appropriate income stream for living improvements.

RECOMMENDATION 21: Include all compatible use income in the appraisal of CLCA properties.

The assessor does not consider all compatible use income when appraising CLCA properties. The income for some compatible uses, such as tower sites, fishing leases, and some gravel operations, is included, while the income from other uses, e.g., hunting rights and mineral leases, is not. It is important to value all compatible uses, whether they are short term or long term contracts.

When income is generated by a compatible use of CLCA lands, it must be capitalized in the manner specified for restricted properties according to section 423. Ignoring compatible use income results in an underassessment.

We recommend that the assessor include all compatible use income in the assessment of CLCA properties.

The present aerial photos the assessor uses are from a 1992 flight using 1/1000 scale of the entire county. These aerials are on Mylar and copies can be made. This makes them a useful appraisal tool.

The assessor should request funding from the board of supervisors for a new flight of the entire county at a more useable scale. By combining resources with other county departments, the cost could be shared. With staff shortages, this tool could enhance the appraisal program in discovering new improvements.

Tenant Improvements

We found that the assessor's tenant improvements program complies with generally accepted assessment practices. Although the assessor has a policy of not assessing tenant improvements left by a vacating tenant, we found only one account where the assessor did not assess the improvements.

Water Companies

Water company property on the local assessment roll may be property owned by municipal district water systems, private water companies regulated or unregulated by the California Public Utilities Commission (CPUC), or mutual water companies. Each type presents different assessment problems.

Private water companies are investor-owned, for-profit utilities in the business of selling water. They are subject to regulation by the CPUC and, therefore, must submit annual financial reports to the CPUC.

In Tehama County there are only six assessable private water companies. All six are CPUC regulated, and their valuation is based on the CPUC's report to the assessor.

We found no problems with these assessments.

Mineral Property

Petroleum

Tehama County has a limited amount of natural gas production. A petroleum consultant appraises the gas wells in the county. A review of these appraisals indicates that the provisions of Rule 468 are being met.

Aggregate Minerals

Tehama County has several active sand and gravel mining operations. Those mineral properties not on CLCA properties are appraised by the auditor-appraiser. Properties are enrolled at their acquisition value, which are adjusted by the annual California Consumer Price Index (CCPI).

RECOMMENDATION 22: Follow Property Tax Rule 469 when appraising mineral properties.

We found that the assessor is not following the provisions of Property Tax Rule 469. The assessor enrolls the FBV of the properties and does not consider their current market values. No provisions are made to account for depletion of minerals, or the addition of new reserves. Since most of the

properties are extracting from within streambeds, the assessor has assumed that reserves are renewed each year with the spring runoff. Of the few properties that are not producing from streambeds, the assessor does adjust the base year mineral value for the depleted reserves.

Property Tax Rule 469 provides that declines in value be evaluated for the entire appraisal unit, which includes the land, improvements, fixtures, and reserves. Leach pads, tailing facilities, or settling ponds are the only items to be excluded from the mineral appraisal unit. The assessor is appraising the mineral rights separate from the associated equipment used to extract the minerals from the ground.

If mineral prices are increasing, this practice results in an underassessment of the mineral reserves. If prices are declining, the assessor's method will result in an overassessment of the mineral reserves.

We recommend that the assessor follow Property Tax Rule 469 and consider the entire appraisal unit when appraising mineral properties.

RECOMMENDATION 23: Require mineral property operators to file the *Aggregate Production Report*.

The assessor does not require mineral right owners that operate in stream beds to file an annual *Aggregate Production Report*. The production report helps the assessor gather information regarding royalties, product sales prices, and expenses related to the mineral property. This information can be compared to other properties in the county to help develop market rates for products and royalties.

All operators of mineral extraction properties should be required to file the annual *Aggregate Production Report* pursuant to section 441(d).

Timberland

Land zoned as Timberland Production Zone (TPZ) is to be assessed in accordance with special TPZ site classifications that exclude the value of the standing timber. This land is assessed at the lowest of its restricted value, current market value, or factored base year value. Section 435 specifies that the assessed value of TPZ land must be its appropriate site value plus the current market value of any existing, compatible, nonexclusive uses of land. This section also provides that the special assessment limitations do not apply to any structure on TPZ land, or to a reasonable site for such structures. In other words, structures and supporting lands are not subject to the TPZ assessment limitations, but should be assessed as other real property.

For the 1999 lien date, there were 951 parcels of TPZ land, totaling 244,000 acres in Tehama County, which constitutes 12.8 percent of the total assessment roll.

The county has no existing written policies or procedures for the assessment of TPZ properties. The assessor should prepare and implement written policies and procedures for TPZ properties. We included policies and procedures for TPZ properties in an earlier recommendation in this report.

RECOMMENDATION 24: Enroll improved property in Timberland Production Zones (TPZ) at the lower of its factored base year value or current market value.

Improved portions of TPZ parcels must be assessed at the lower of the current market value or the FBYV. The assessor enrolls only the FBYV and makes no comparison with the current market value.

We recommend that the assessor determine the FBV and the current market value for the subject property and enroll the lower of the two.

RECOMMENDATION 25: Include all compatible use income in the assessment of TPZ properties.

Income for existing, compatible nonexclusive uses, such as fishing leases, and some gravel leases, are included in the assessed value of TPZ properties, while income for other existing, compatible nonexclusive uses that are considered short term, or not of significant value, are not. In addition, whenever existing, compatible nonexclusive uses are valued, they are not reviewed or revalued on an annual basis. Section 435 provides that the roll shall include TPZ site value plus the value of any existing, compatible nonexclusive uses of the land.

We recommend that all compatible use income be included in assessing TPZ properties.

RECOMMENDATION 26: Send annual questionnaires to TPZ landowners to discover compatible uses so the income from such uses can be included in calculating assessed value.

Value must be added for any existing, compatible, nonexclusive uses of the land. We found that there is no systematic canvassing of TPZ properties to discover existing, compatible nonexclusive uses. Section 435 requires that values attributable to existing, compatible, nonexclusive uses be determined annually and included, with the TPZ value, in the assessed value of the land.

We recommend that the assessor mail an annual questionnaire to each TPZ property owner requesting information on compatible uses that may exist on their property so the value of such uses will not escape assessment.

ASSESSMENT OF BUSINESS AND PERSONAL PROPERTY

The Tehama County Assessor's personal property appraisal staff consists of an auditor-appraiser and an assessment clerk who are responsible for 3,561 business property assessments, including 1,333 boat assessments. This number represents a 42 percent increase over the 2,500 business property assessments as of our last survey.

Discovery

The assessor and his staff use the following methods to discover property in the county: field canvass, sales tax permits, BOE's annual listing of pollution control equipment financing bonds, BOE's Valuation Division Form 600B, fictitious business name filings, city licenses, property statements, referrals from real property appraisers, and local newspapers. Tehama County is a small enough community that the assessor and his staff keep in touch with the local business activity.

Business Property Statement Program

Section 441 requires each person owning taxable personal property in excess of \$100,000 to file an annual business property statement (BPS) with the assessor. Annual business property statements form the backbone of the business property assessment program. These statements cover a wide variety of property types, including business, agriculture, boats, and aircraft.

It is usually impossible for the assessor's staff to determine, with certainty, the accuracy of the statement upon its receipt. Therefore, when we reviewed the property statement processing activity, we made no attempt to measure the level of taxpayer compliance.

The assessor does not have written policies and procedures for the business property division. We have recommended that the assessor develop and maintain a written policy and procedures manual pertaining to the operation of the business property division in an earlier recommendation.

RECOMMENDATION 27: Use certificated staff in the valuation of business personal property as required by section 670.

Presently, an assessment clerk III processes all BPS through to valuation, except problem accounts, leasing companies, aircraft, and boats. There is no documented review by certificated staff of enrolled values. This practice contradicts section 670 which mandates that no person shall perform the duties or exercise the authority of an appraiser unless he or she is the holder of a valid appraiser's, or advanced appraiser's, certificate issued by the BOE.

We recommend that the assessor assign the assessment clerk to only the clerical aspects of processing BPS's. All valuation aspects of processing BPS's should be completed and reviewed by certificated staff.

RECOMMENDATION 28: Send the long form of the annual business property statement (BOE 571-L) to all owners with personal property of \$200,000 or more in full value as required by Rule 171.

One of the many BOE-prescribed forms used by the assessor is the BPS. The assessor sends the short form version (BOE 571-S) to many businesses that own business property with full cash values of \$200,000 or more. Property Tax Rule 171(d) requires the assessor to send the "long" form of the business property statement – BOE 571-L – to those persons who have business personal property and fixtures with full values of \$200,000 or more.

We recommend that the assessor send the long version of the annual business property statement to those owners who own business property of \$200,000 or more.

Direct Billing

Direct billing is a method of assessing the property of qualified small business accounts without using the annual BPS. Once an initial value is established, the taxpayer is not required to file an annual BPS, and the value is continued for several years. The taxpayer is queried annually to determine if there are any changes in its status, such as equipment additions, deletions, and name changes. The assessor has established the following criteria for selecting those accounts eligible for direct billing:

- Personal property value of less than \$20,000 (total equipment cost less than \$30,000 or a physical appraisal on file.)
- Taxpayer has only one location.
- Taxpayer has a limited growth potential or a history of a constant value.
- Taxpayer has no leased equipment.

We found no problems with the direct billing program.

Valuation Factors

Assessors' offices use business property valuation factors that are produced by combining equipment index factors with percent good factors. The BOE has developed annual equipment index factors and percent good factors that are published in Assessors' Handbook Section 581 (AH 581), *Equipment Index and Percent Good Factors*.

RECOMMENDATION 29: Use equipment index and percent good factors that are applicable to the category of equipment being appraised.

The assessor uses the recommended index factors from the AH 581 to appraise machinery and equipment, but not in the manner intended. The assessor continues to use, in spite of our last survey recommendation, only one out of twelve schedules for commercial equipment. His reason for using the "service" schedule is that the service schedule represents the average of all 12 schedules.

It is important that the assessor use the appropriate table because there is a wide range of index factors in valuing machinery and equipment. While overall totals may show only small differences, the

accuracy of specific categories will be materially distorted. Averaging indices sacrifices accuracy for convenience, which results in inequitable treatment of taxpayers.

We recommend that the assessor discontinue this practice and use the equipment index factors appropriate to the category of equipment being assessed.

Homeowners Associations' Personal Property

There are three large homeowners' associations in Tehama County that file their business property statements annually. These filings include household furnishings, personal effects, and pets owned and exclusively used by the homeowners themselves. The assessor assessed all personal property, including household furnishings and personal effects reported by these associations.

RECOMMENDATION 30: Exempt personal property that is owned by homeowners' associations in accordance with section 224.

Section 224 provides that household furnishings, personal effects, and pets owned by any person (including homeowners' association) but not held or used in connection with a trade, profession, or business, or for production of income, are exempt from ad valorem taxation.

Under section 224, unlike most property tax exemptions, an eligible person need not file any claim for exemption to receive this benefit. The responsibility lies with the assessor to make the proper determination.

We recommend that the assessor exempt furniture, appliances, exercise equipment, recreational equipment, household furnishings, personal effects, and pets owned and used exclusively by homeowners' associations as provided in section 224.

Audit Program

Mandatory Audits

Pursuant to section 469 and Rule 192, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more for four consecutive years.

RECOMMENDATION 31: Adopt minimum audit standards.

The audit program should include a standard format to ensure that the auditor has completed a comprehensive audit. To make certain that all taxable property is being assessed, audit narratives and audit summaries should be supported by workpapers showing value calculations, asset account reconciliation, and analysis of expense and lease/rental accounts.

In Tehama County, the majority of the taxpayer audits are handled by mail. Many of the audits we reviewed lacked some of the important workpapers, such as a complete narrative summarizing the scope and findings of the audit, audit value summary sheets showing a reconciliation between the reported and audited full cash values, and an audit checklist indicating areas of audit coverage and pertinent questions. Audits of small nonmandatory accounts may not require all of these audit components. However, all audits should follow professional audit guidelines for audit format and audit review procedures. We therefore recommend that the assessor develop audit guidelines that guide his staff during an audit.

Valuation of Other Taxable Personal Property

Leased Equipment Valuation

Problems in the reporting, tracking, and assessing of leased equipment are common in most counties. Prior to the 1996 lien date, leased property was required to be reported and assessed at the location where it was used. That requirement was changed with the enactment of section 623. Effective for the 1996 lien date, leased equipment could be assessed to the lessor at its principal place of business in the county, or at the situs within the county where most of the equipment is located. This has given the assessor the option of distributing leased equipment assessments by individual situs, by tax-rate areas, or at one central location.

We found that the assessor's leased equipment assessment program is in compliance with generally accepted assessment practices. The appraisal staff cross checks the lessors' and lessees' business property statements. Self-constructed equipment is assessed at the consumer level.

Aircraft of Historical Significance

Section 220.5 (d) defines historical aircraft as any aircraft which is an original, restored, or replica of a heavier than air powered aircraft which is 35 years or older or any aircraft of a type or model of which there are fewer than five in number known to exist worldwide.

Aircraft of historical significance (or historical aircraft) are exempt from property taxation. The exemption, however, is not automatic. Rather, the owner of a historical aircraft must submit an affidavit (Form BOE 260-B, *Claim for Exemption from Property Taxes of Aircraft of Historical Significance*) for exemption on or before the deadline of 5:00 p.m. on February 15.

RECOMMENDATION 32: Consistently enforce the filing deadline for the aircraft of historical significance exemption.

The assessor exempted three aircraft for the 1999 assessment roll whose owners filed affidavits after the deadline of February 15. There were also three aircraft owners who were denied the exemption because of late filing of the affidavit.

Section 260 provides that if any person claiming an exemption fails to follow the required procedure, the person waives the exemption. Unlike other exemptions for which is provided prorata relief to those who file applications late, no such provision applies to the aircraft of historical significance exemption, and, pursuant to section 260, the exemption is waived.

We recommend that the assessor consistently enforce the filing deadline for the aircraft of historical significance exemption.

Vessels

Assessors are required to annually appraise vessels at market value and to assess all vessels with a value above \$400, unless the county has adopted a resolution exempting low-valued property above the \$400 statutory exemption allowed for boats. Tehama County has adopted a low-value resolution of \$1,000 for personal property.

RECOMMENDATION 33: Assess vessels at market value.

In the initial year of assessment, vessels are assessed at the sale price, if the sale price falls within the value range indicated by the *ABOS Marine Blue Book* (ABOS). If the sale price exceeds the ABOS value range, the auditor reduces the sale price by 30 percent and enrolls that value. In the succeeding years, the assessed value is determined by applying a depreciation factor (generally from 5 percent to 10 percent) based on a study of the last two years' changes in only inboard vessels and personal watercraft values.

The reduction of 30 percent used in the initial assessment of vessels is not supported by any study. The auditor responsible for assessing vessels contends that the 30 percent reduction is based on the difference between vessels new, and their trade-in values. However, we found no study documenting these differences.

The adjustment for subsequent assessments is based solely on the differences in values of inboard vessels and personal watercrafts. We believe this adjustment is not appropriate for all vessels. In addition, when using the ABOS value guide, the auditor uses the high wholesale value of vessels, rather than the retail value which is the more appropriate value.

A more reliable method for determining the annual adjustment of market value is to categorize vessels into two classes (new and used), with six subgroups (powerboat, sailboat, inboard, onboard, inboard/outboard and jet ski) in each class. Trends in market values for these classes and subgroups could be determined by comparing published vessel valuation guides for the current and previous years. Once trend factors are computed, they should be applied to all vessels within each class and group.

We recommend that the assessor assess vessels at market value.

Manufactured Homes

Section 5801 requires the assessor to classify manufactured homes as personal property. Improper classification of a manufactured home could result in several consequences that can affect its taxability. In the assessment of manufactured housing, the assessor relies on data provided by the Department of Housing and Community Development, building permits, and dealer sales reports.

There were 3,425 manufactured homes assessed on the 1999-2000 Tehama County assessment roll. Of this total, 2,373 were located on land owned by the manufactured home's owner, 675 were located in manufactured home parks, and 377 were situated on leased or rented land, other than in manufactured home parks.

In the Tehama County, each appraiser is responsible for valuing the manufactured homes in his or her assigned geographic area.

RECOMMENDATION 34: Enroll manufactured homes as personal property.

The assessor currently enrolls all manufactured homes as real property improvements. We were told that he could not enroll manufactured homes as personal property due to constraints of the county's computer system. Nevertheless, section 5801(b) specifically requires that manufactured homes not be classified as real property. Improper classification can also affect the amount of property tax levied because special assessments are not levied on personal property.

We recommend that the assessor change his classification of manufactured homes from improvements to personal property.

RECOMMENDATION 35: Annually enroll the lower of the factored base year value or the current market value for manufactured homes.

The assessor reappraises manufactured homes upon a change in ownership or completion of new construction. Once the base year value is enrolled, the assessed value remains constant from year to year.

This practice does not conform to Revenue and Taxation Code requirements. Section 5813 provides that for each lien date after the lien date for which the base year value is determined, the taxable value of a manufactured home shall be the lesser of the factored base year value or the full cash value. There is no evidence in the property files that the assessor makes a comparison between a manufactured home's factored base year value and its full cash value.

We recommend that the assessor revise his manufactured home assessment program so that he enrolls the lower of the factored base year value or the current market value.

Racehorse Administrative Tax

We found that the assessor's racehorse assessment program complies with generally accepted assessment practices. The assessor sends the annual racehorse tax return and owner's address to the tax collector's office. The tax collector's office processes and collects the taxes due from the racehorse owner.

Apartment Personal Property

RECOMMENDATION 36: Properly and consistently assess personal property in apartment appraisals.

The assessor continues to include personal property in the improvement value of apartment assessments. Enrolled apartment improvement values include personal property, fixtures, and structural improvements. The assessor does not use the *Apartment House Property Statement* (BOE-571-R).

Owners of some large apartment complexes who file business property statements have their personal property assessed separately. Other owners, however, who do not submit a business property statement have their personal property enrolled with the real property. Thus, personal and real property at small apartment complexes are assessed by the real property staff as real property; and no segregation is made between real and personal property.

Including personal property in the improvement value overstates the improvement value, with several adverse consequences. For example, it results in an overstatement of any supplemental assessment (supplemental taxes apply to land and improvements, not to personal property). Also personal property is not subject to the annual inflation factor that applies to land and improvements. For these reasons, we recommend that the assessor properly classify and assess apartment personal property separate from the land and improvements.

Service Stations

We found that the assessor's service stations assessment program complies with generally accepted assessment practices. A sampling of service stations accounts showed that the assessor had reclassified the improvements and equipment from real property to the appropriate classification of fixtures, as we had suggested in our previous survey.

Energy Generating Facilities

We found that the assessor's energy generating facilities assessment program complies with generally accepted assessment practices. There are two small power-generating plants in the county that the assessor has assessed since 1992. The remaining plants in the county are state-assessed.

APPENDIX

A: County Property Tax Division Survey Group

Tehama County Assessment Practices Survey

Survey Program Director:

Charles Knudsen

Chief, County Property Tax Division

Survey Program Director:

Gene Palmer

Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong

Supervising Property Appraiser

Survey Team Leader:

Lois Adams

Senior Specialist Property Appraiser

Survey Team:

James McCarthy

Senior Petroleum and

Mining Appraisal Engineer

Robert Donay

Associate Property Appraiser

Manny Garcia

Associate Property Auditor

Appraiser

Wes Hill

Associate Property Appraiser

Nancy James

Associate Property Appraiser

Julius Trujillo

Tax Technician II

B: Relevant Statutes and Regulations***Government Code*****15640. Survey by board of county assessment procedures.**

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records; Appraisal Data Not Public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code**75.60. Allocation for administration.**

- (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.
- (b) For purposes of this section:
- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
- (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
- (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations**Rule 370. Random selection of counties for representative sampling.**

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
 - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, “significant assessment problems” means procedure(s) in one or more areas of an assessor’s assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:
- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board’s appraisals and the assessor’s values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor’s entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, “areas of an assessor’s assessment operation” means, but is not limited to, an assessor’s programs for:
- (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of “significant assessment problems,” as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor’s practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Tehama County Assessor's response begins on the next page. The CPTD staff has no comments on the response.

ROBERT C. BROWNFIELD
ASSESSOR

Office of County Assessor

COUNTY OF TEHAMA
P.O. BOX 428, RED BLUFF, CALIFORNIA 96080
TELEPHONE (530) 527-5931
FAX (530) 529-4019

March 5, 2001

RECEIVED
MAR 08 2001

County Property Tax Division
State Board of Equalization

State Board of Equalization
County Property Tax Division
MIC: 62
P. O. BOX 942879
Sacramento, Ca 94279-0062

Attention: Mr. Charles Knudsen, Chief

Gentlemen:

In accordance with section 15645 of the Government Code, enclosed is my response to the recommendations of the State Board of Equalization on the Assessment Practices Survey of Tehama County.

I want to express appreciation to the entire survey team for the professional manner in which they conducted the audit and survey.

As you will note, I concur with many of the recommendations and have already taken the appropriate steps to implement them. Many of the other recommendations, even though we agree with them, may be impossible to implement or take longer because of current staffing levels.

Finally, I want to thank my staff, for their hard work, professionalism and dedication to Tehama County and its taxpayers.

Yours very truly,



ROBERT C. BROWNFIELD
Tehama County Assessor

RCB:bh

RESPONSE TO SURVEY RECOMMENDATIONS

RECOMMENDATION 1: Develop and maintain a formal policy and procedures manual.

RESPONSE: This office certainly does not disagree with this recommendation. We believe that policy and procedures manuals are a wonderful tool that does promote consistency and provides a terrific training tool. We will do what we can to comply. Total compliance with this recommendation may be too much to expect in that staffing level will not allow us to add a project of this magnitude to our current workloads and still produce a timely assessment roll. We believe this project would demand about 4 to 6 months time to complete. Currently the managers have a tremendous workload responsibility, this project would force them to ignore the production that a timely assessment roll demands. We do believe that we may be able to compile data from other Crest Computer counties and try to assimilate a policy manual from this input. This would be less time consuming and might be something that could work. However until we receive that kind of information from other sources we will not know whether this will work for us or not.

RECOMMENDATION 2: Review appraisals and audits

RESPONSE: This recommendation has already been implemented. This office has been very fortunate in the past to have very senior appraisers. This made this review program a lower priority than the current condition of our office. This office now has half of its appraisal staff with less than one year of experience. This condition made this office reconsider the need to review appraisals. We now have all appraisal work running across the Assistant Assessor's desk for review.

RECOMMENDATION 3: Store back-up programs and data at a secure, off site location.

RESPONSE: We currently store all back-up data in the tax collectors office in what is supposed to be a fire proof vault. We believe this is as safe as anywhere is around, atleast it is protected from fire there as opposed to most other locations. As far as data backups incremental back ups are done daily and full backups are done twice a week.

RECOMMENDATION 4: Develop a formal disaster recovery plan for the computer system.

RESPONSE: We are a little unclear as to what this recommendation is. If the recommendation is to develop a plan to restore the assessor's electronic information if we had a total mainframe meltdown then I believe that we would be at the mercy of Mr. Chatfield and the Crest Company. This would mean that we would develop a plan that would be totally dependent on someone else's reaction time. We would have information because of our daily and weekly backups but the software programs would be gone until

the Crest Co. restored them. If the recommendation is to develop a plan to replace the hardware in the event of earthquake or some other physical disaster that would destroy the building and everything in it than this recommendation must be discussed with county administration more that with the Assessor. The assessor would be limited by the funding provided by the county and the restoration of operations would happen as that funding was made available.

RECOMMENDATION 5: Include section 506 mandatory interest on all applicable escape assessments.

RESPONSE: We agree with this recommendation. We believe that this is not the assessor's responsibility, we believe it is the Auditor's responsibility. We will begin including notation that will help the Auditor's office remember to add the penalties in section 506.

RECOMMENDATION 6: Request the board of supervisors to update the county's disaster relief ordinance.

RESPONSE: The existing ordinance is in fact out of date and should be updated. We agree with this recommendation and will pursue an update.

RECOMMENDATION 7: Grant disaster relief only upon receipt of a timely application.

RESPONSE: We believe we are already processing this workload as recommended in this recommendation. We do not grant relief without an application. It is possible that the records pulled by the survey crew that the application had been some how disconnected from that appraisal record. Our appraisal records are only stapled together and sometimes information is unintentionally disconnected. We may have also treated some of this property destruction as supplemental assessments or new construction as of the date of the removal of the structure. This would appear to be appropriate removal of structures or demolition does qualify as new construction.

RECOMMENDATION 8: Reappraise all real property owned by legal entities upon a change in control.

RESPONSE: It does appear that we need to take a look at this procedure. We some how did miss notification of the Bank of America transfer. The state claims it was on a particular report and this office had no copy of that report until very recently. The taxpayer called and asked about the reappraisal which sent us looking. We contacted the state and they sent us this verification.

RECOMMENDATION 9: Accept only completed section 63.1 claims.

RESPONSE: We have discussed this with the clerical staff responsible to make sure the claims are complete to show her the areas of concern. We will be more diligent when analyzing the form for completeness.

RECOMMENDATION 10: Assess wells and well casings as land.

RESPONSE: This has been a recommendation made before. This office has not implemented this recommendation for we do not believe it effects the value of the property in any manor. It does however create an additional tracking problem for us. If this recommendation were implemented every building site in this county would have not one base year on the land but two. The way we handle it we only have to track one base year on the land and generally only one on the improvements since the well and structural improvements usually happen fairly close together.

RECOMMENDATION 11: Log all building permits on appraisal records.

RESPONSE: This recommendation, although a good one, is one that just simply can not be complied with at this time. Currently we have a clerical person, which goes through all the permits. At this time she separates the ones that could constitute new construction from the ones that are clearly maintenance items. The ones that are maintenance are simply culled. She then pulls the appraisal records on the ones that could generate valuation activity and notes the permit information. She then files this work in the appraisers activity files for field inspection. This recommendation would increase this workload 25 to 30 percent. The current staffing levels in this office are such that we are struggling just to get the mandated work done and have little time to implement a things that would increase the workload no matter how good the concept might be.

RECOMMENDATION 12: Substantiate new construction discounts on residential swimming pools.

RESPONSE: This office has does discount swimming pools from their historical cost. We have seen the sales come through that indicate this type of improvement is not a good financial investment. We, as evaluators, have discussed this issue and have established a policy that seems to correspond with the information available to the appraisers. We believe our value conclusions are accurate. **Again, we would love to have a staffing level that would allow us to do formal studies of this type to document every value conclusion we make.** However, reality is that is not the case in Tehama County.

RECOMMENDATION 13: Assess all taxable possessory interests.

RESPONSE: This recommendation is two fold. First the boat dock issue. The larger boat docks do have an income stream for this office to value. Even with these properties the value is not very significant. The question is, since the small boat docks do not generate any income do they have value. This office takes the position that no they do not. Further, that even if they did the value would not be enough to exceed the low value ordinance of Tehama County.

The second part of this recommendation is the possessory interest assessments that may or may not exist at the Tehama County Fairgrounds. We understand this recommendation is the state of California's position. This office will pursue the ordinance to exclude any fairground possessory interest that is under the \$50,000 amount. This should bring Tehama County in compliance with this recommendation.

RECOMMENDATION 14: Add the present worth of unpaid rents to the nominal sales price of National Forest Service cabins.

RESPONSE: We have one subdivision that this recommendation is applicable to. Not far from this property there are a lot of cabins in the Mineral area that sit on fee owned land. The sales on the Mineral sites do not differ much from the sales on the non-fee National Forest Service sites. This office has felt, in the past, that the fee owned land should set the upper limit since these buyers are purchasing all the property rights. This recommendation is suggesting that there must be a "neighborhood" influence in the National Forest Service cabins. If we add the unpaid rent going to the government to the purchase we would be valuing these properties higher than you could buy the same cabin for on fee owned land just a couple of miles down the road. Not only do these buyers get fee title but also they have 12-month access to their cabins. The forest service cabins do not have this year round usage. We will give this recommendation further evaluation before implementing.

RECOMMENDATION 15: Assess taxable government-owned land at the lowest of its Section 11 value, its factored base year value, or its current market value.

RESPONSE: We agree with this recommendation. We will compare all three values before enrolling the taxable amount on Section 11 properties.

RECOMMENDATION 16: Improve the taxable government-owned property discovery program.

RESPONSE: We agree with this recommendation. It appears like there may be couple of properties that are slipping through the cracks. We currently track these properties through the parcel type and use code. It may be that the wrong use code or parcel type may have resulted in a couple of these properties being excluded from the annual review process. We will try and improve this procedure.

RECOMMENDATION 17: Uniformly assesses comparable restricted properties.

RESPONSE: We atleast partially disagree with this recommendation. We do not believe that we are indirectly applying the penalty at all. We believe that we are applying section 501 of the revenue and taxation code. This code speaks to making as assessment based on an estimate. The 501 assessment is based on production records for the higher producing properties in this county. The logic is that if this property were a low producer they would be turning in. This system is set up to value property based on that properties individual production and not uniformity at all. You appraise the property with actual production. As far as the 463 penalty we are certainly willing to consider but

our concerns are how do we determine the amount under reported. This property is not subject to audit like property not filing a personal property statement. When the property statement is not filed we audit and the under reported amount is discovered. With no audit how do we determine the amount of the penalty?

RECOMMENDATION 18: Use current rents when valuing CLCA restricted property.

RESPONSE: We agree with this recommendation. However, the possibility of total compliance is slim with current **staffing levels**.

RECOMMENDATION 19: Enroll the lowest of the CLCA restricted value, the factored base year value, or the current market value.

RESPONSE: This recommendation although the "proper" procedure may be impossible to comply with. We currently make the comparison of factored base year to restricted value, **however it would take an additional 4 real property appraisers to determine a new market value every year on all 4000 plus Williamson Act. Properties in this county.**

RECOMMENDATION 20: Use the appropriate income stream to value living improvements.

RESPONSE: We feel that the income stream that the state suggests results in an insignificant difference in value. Living improvements are valued annually using current production and commodity prices. Whichever income stream is used, it causes very little difference in the result. The method we use is more reliable, economical and simpler for the taxpayer to understand.

RECOMMENDATION 21: Include all compatible use income in the appraisal of CLCA properties.

RESPONSE: We agree that to include hunting rights into the income stream is a good idea. We have not done that in the past because it seems inequitable to only do the ones that turn in that income. We will however begin to include this income in the future.

The exploration leases, again we agree with the theory, but we do not believe that with the short term of these leases and the amount of the cash flow involved we are talking about a significant amount of value. The further complication is that our automated valuation system has one income model and it is long term. So to include this income would take some software modification. This could be a fairly expensive procedure for insignificant return.

RECOMMENDATION 22: Follow Property Tax Rule 469 when appraising mineral properties.

RESPONSE: This office will give this recommendation due consideration. Our current position is that these properties do in fact restore their

"inventory" annually. The survey crew is not indicating that our values are not correct. However, they are indicating that our procedure is flawed. The value conclusion is the most important fact and we are not convinced that the recommendation even if implemented will effect the value conclusion.

RECOMMENDATION 23: Require mineral property operators to file the Aggregate Production Report.

RESPONSE: We agree with this recommendation.

RECOMMENDATION 24: Enroll improved property in the Timberland Production Zones(TPZ) at the lower of its factored base year value or current market value.

RESPONSE: We agree with this recommendation. However compliance will be tough. Again, we have some 2000 or so TPZ parcels in this county. **We would need an addition staff of atleast 2 more valuation people to establish current market value on each of these properties every year to make this comparison.**

RECOMMENDATION 25: Include all compatible use income in the assessment of TPZ properties.

RESPONSE: Same response as compatible use on CLCA. Properties.

RECOMMENDATION 26: Send annual questionnaires to TPZ landowners to discover compatible uses so the income from such uses can be included in calculating assessed value.

RESPONSE: We agree that we could increase our solicitation of compatible use information. There certainly is a possibility that there are compatible use incomes out there that we are unaware of. By sending out some sort of questionnaire we would be treating this type of property similar to the treatment of CLCA Properties.

RECOMMENDATION 27: Use certificated staff in the valuation of business personal property.

RESPONSE: We do not believe we are in violation of section 670. The auditor appraiser has established class codes for all types of machinery and equipment. Based on these class codes the clerical staff receives the property statements and processes the appropriate data entry. The computer does the calculations based on the data entry information. The auditor appraiser codes and procedures are very specific. If some thing is even a little out of the ordinary the clerical person brings it to the auditor appraiser for his review and conclusion. We believe this procedure is essential in making the most effective use of our limited staff. We believe that data entry is within the job description of the assessment clerk who is currently assigned to this workload.

RECOMMENDATION 28: Send the long form of the annual business property statement (BOE 571-L) to all owners with personal property of \$200,000 or more in full value.

RESPONSE: We agree with this recommendation and will implement it.

RECOMMENDATION 29: Use equipment index and percent good factors that are applicable to the category of equipment being appraised.

RESPONSE: We understand this recommendation. However, the Assessor's association has also come out with recommendations on this issue. This office has implemented the Assessor's recommendation.

RECOMMENDATION 30: Exempt personal property that is owned by homeowners' associations in accordance with section 224.

RESPONSE: We were not aware that this section applied to this type of property. We will implement this recommendation.

RECOMMENDATION 31: Adopt minimum audit standards.

RESPONSE: We have already implemented this recommendation. We now have a computer master audit worksheet system to format all audits in a consistent manner.

RECOMMENDATION 32: Consistently enforce the filing deadline for the aircraft of historical significance exemption.

RESPONSE: We agree.

RECOMMENDATION 33: Assess vessels at market value.

RESPONSE: It is true that there is no "documented study" to support the 30% adjustment made to the initial assessment for the succeeding year. This adjustment is not arbitrary. The appraiser who is handling this workload has been doing it for over 20 years. This adjustment is made based on his tremendous amount of experience. Also, the value guides support this adjustment.

The second part of this recommendation we agree with. The break down of vessels into more specific categories would be useful. However, time constraints resulting from staffing at current levels make it difficult to implement ideas, no matter how sound, for they simply create a greater workload. We will give this due consideration.

RECOMMENDATION 34: Enroll manufactured homes as personal property.

RESPONSE: We agree with this recommendation. These properties are a problem for all counties. They are to be treated as if they were real property even subject to the same consumer price indexing. However, they are by statute personal property. Our personal property computer program is set up to handle personal property as personal property and our real property system is obviously designed to handle real property. So this clearly defined property by statute is really a hybrid for property tax purposes. We will give serious evaluation to determine if this office and our system can meet this recommendation.

RECOMMENDATION 35: Annually enroll the lower of the factored base year value or the current market value for manufactured homes.

RESPONSE: This is another of the recommendations this office would love to be able to comply with. However, compliance is doubtful. We currently have approximately 2500 manufactured homes in this county. The assessor is required by law to consider one of the value guides in establishing taxable value but should consider the market approach as well. **If we were to establish a current market value on each of these properties every year we would need atleast 2 additional appraisal positions in order to accomplish this goal. We will seek county administration support for this additional staff.**

RECOMMENDATION 36: Properly and consistently assess personal property in apartment appraisals.

RESPONSE: We agree that the small apartments are having some of their property misclassified. We do not believe that this is a significant problem. The properties tend to be duplexes or maybe a fourplex. These probably each have one item of personal property per unit. This does not significantly effect the supplemental assessment or the ongoing annual assessments. Having said that we will give this recommendation due consideration.